



August 26, 2015

Mr. Gerard Poliquin  
Secretary to the NCUA Board  
1775 Duke Street  
Alexandria, VA 22314

RE: Comment Letter on the Proposed Amendments to the NCUA MBL Rule

Dear Mr. Poliquin,

Meriwest Credit Union is pleased to provide comment on NCUA's Proposed Rule Making for 12 CFR Part 723 regarding potential changes to the Member Business Lending regulations. We are encouraged and supportive of NCUA's efforts to modernize the MBL regulation, which would give credit unions much needed flexibility in meeting the financing needs of its' members which in turn enhances economic growth in our communities.

Meriwest Credit Union is a community based, state chartered credit union with a field of membership in the 5 bay area counties of Santa Clara, San Mateo, San Francisco, Alameda, and Contra Costa; and Pima County in Arizona. We are a \$1.1B credit union with a rapidly growing MBL portfolio. In particular, we are in fierce competition with other competitive financial institutions that serve the ever growing Silicon Valley. It is a unique marketplace that stimulates the emergence of entrepreneurial talent and innovation. It is the leading hub and heart of high tech innovation and development, fostering economic growth that feeds the rest of the country.

We commend the NCUA with this proposal to switch from a prescriptive to a principles based MBL regulation. The change modernizes the regulation by giving credit unions flexibility to develop and tailor their program to fit its strategic goals and risk tolerances. It allows credit unions to be competitive with other financial institutions from a foundation of safety and soundness. Specifically, we are strong advocates for the following:

- The elimination of the minimum two-year experience requirement for underwriting MBLs. MBLs and commercial loans vary in complexity which makes one standard difficult for use in all circumstances. While we advocate for much more experience than this two year requirement, experience must be commensurate with the particular type of lending being done. The change requiring experience aligned with specific loan underwriting and portfolio risk is not only a positive step but one that better enables underwriting different types of loans and appropriately managing the risks of a portfolio.
- The need for senior executives to have a comprehensive understanding of the risks of a commercial lending program is also a positive. In most cases, this is paramount to the long term success of an MBL program.
- The responsibility of safety and soundness of lending programs will be shifted toward the credit union. This increases scrutiny and accountability of credit policies and lending guidelines. Not only will credit unions have the ability to compete with other financial institutions including banks and alternative lenders, but do so within the risk tolerance and oversight of experienced staff who are equally mindful of the safety and soundness of the credit union.

- The following are positive changes that will have material impact on the credit union's ability to compete on a level playing field with banks and other financial institutions. These are easily implemented through updates to business lending policies, procedures, and guidelines. Perhaps many if not all of these regulatory changes could be implemented earlier than the proposed 18 month implementation timeline.
  - We agree that credit unions should always obtain full **personal guaranties** whenever possible. However, eliminating guarantees as a requirement allows for greater flexibility in offering a graduated scale of guarantees, partial or proportional guarantees, or selective guarantees for those key to the success of the business. Permitting these choices in guarantees give the credit union the ability to pursue an opportunity than declining a well-supported loan request when the only barrier is requiring a guaranty. Today, we are forced to turn away many quality lending opportunities because of the regulation-mandated guarantees. An earlier implementation timeframe allows us to take advantage of these excellent opportunities sooner.
  - Revisions to the **loan to value ratio** definition better align these ratios to those customarily calculated for commercial loans. This allows the principal of sufficient collateral to be obtained when warranted and in relation to the risk involved.
  - Credit unions can easily define circumstances where appropriate and well-supported **unsecured lending limits** can be utilized. Credit unions can also set unsecured loan limits for loans to one borrower and portfolio limits that tie to net worth. They would be established in our policy and practices, relatively easily.
  - We already have a **credit risk rating system** which we are planning to further refine by balancing quantitative and qualitative information when determining the level of risk in a transaction. This is easily implemented as we apply this credit risks assessment for all lending deals today.
  - **Definitions of C&D and collateral valuation** are clearer about soft costs better reflects how collateral values are customarily calculated with C&D loans. This is easily implemented when looking at construction loans.
  - For **loans to one borrower**, allowing the credit union to exceed the current 15% of net worth limit by an additional 10%, as long as the higher advance is fully secured by marketable securities or cash accounts, is clear and can quickly be implemented.
- There are however, a few items for which we would like further clarification and discussion.
  - The separation of definitions for **MBLs and Commercial Loans** is somewhat unclear. While each is being differentiated by the other, clarity around the impact of the regulatory changes on each would be helpful.
  - **Non-Member Participations** being excluded from the MBL cap seems like a double edged sword. On one had it allows for diversification and relief from the MBL cap, but on the other hand explanations indicate that it is not intended for credit unions to purchase each other's loans. This appears to be a contradiction. Credit unions would be expected to define trade areas and risk parameters in credit policy.
  - Risk based capital rules are currently under discussion and determination. It is uncertain how this would impact the proposed rule (**MBL Cap Calculation**) that eliminates the 12.25% cap on assets and focuses solely on the "lesser of 1.75 times a credit union's net worth or 1.75 times the minimum net worth requirement to be considered well-capitalized." More clarity around the intent behind this proposal would be helpful.
  - For **1-4 family investor, residential properties** included as MBLs, are these subject to HMDA reporting? If so, such expertise would need to be resident in the MBL group with reporting requirements and guidelines reflected in loan policy and procedures.

Because this is a new endeavor, it has the potential for miscommunication and misunderstanding. It is critical to the success of this major change for the NCUA and credit unions to collaborate and partner throughout this process. Making sure each is on the same page of understanding and interpretation of these changes is a major part of insuring a smooth implementation. It is necessary to us to fully and clearly understand the areas of emphasis and expectations of examiners. True commercial lending expertise in examiners is essential for consistency and healthy conversations with credit unions.

We appreciate the opportunity to provide respectful candor and input on the NCUA's proposed rulemaking amending the Member Business Loan regulations. Please let me know if you need further clarification or discussion on any of our comments.

Sincerely



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